<u>Meaning of Export:</u>

Exports are goods and services that are produced in one country and sold to buyers in another. An export refers to selling goods and services produced in the home country to other markets.

<u>Meaning of Import:</u>

Imports are derived from the conceptual meaning, as to bringing in the goods and services into the port of a country. An import in the receiving country is an export to the sending country.

<u>Types of Exporting:</u>

There are two **types of exporting.** They are direct exporting and indirect exporting.

<u>Meaning of Direct Exporting:</u>

Direct exporting is the method of exporting goods directly to the foreign buyers by the manufacturer himself or through his agent situated in the foreign country. Such exporters are also known as manufacturer exporters. Even goods supplied on consignment basis are considered to be direct export.

Firms having a very high turnover generally export their products directly to foreign buyers or middlemen. The degree of risk involved in direct exporting is very high but so are the potential returns.

<u>Meaning of Indirect Exporting:</u>

Indirect exporting involves an organization sells to an intermediary in its own country. This intermediary then sells the goods to the international market and takes on the responsibility of organizing paperwork and permits, organizing shipping and arranging marketing. An indirect exporter can sell to the following intermediary customers: export houses (trading houses or export merchants, confirming houses, and foreign organizations based in the organization’s country (buying offices).

<u>Definition of price:</u>

Price is the value of utility of goods and services expressed in terms of money. It is one of the important factors that determine the success of an export organization. International market being buyer market, the price quoted by an export should be reasonable.

Factors affecting determination of Export Price:

The following factors affect the pricing decisions of the exporters:

(a) **Cost of the Product:**

Cost is the most important determinant of the price of other direct goods. The cost of product constitutes:

Direct Costs, viz., cost of materials, labor cost and other direct expenditure

Indirect Costs, viz., expenditure such as manufacturing office/administrative costs, selling/distribution costs, etc.

(b) **Competition:**

International market is highly competitive. Exporters face competition from three angles. In order to survive intense competition, an exporter has to charge a reasonable price. However, an exporter can charge higher prices and can face competition by innovating and improving the quality of his goods and services.

(c) **Elasticity of Demand:**

The price, to a great extent, depends upon the elasticity of demand. In the markets, where demand for exporter's product is Inelastic, he may charge a higher price and can earn supernormal profit while in the markets where demand is elastic he may earn normal profit by charging a marginal price.

(d) **Government Policies:**

Liberal and encouraging EXIM policy encourages exports. The EXIM policy of the economy is closely linked with the other policies of the governments such as fiscal policy, monetary policy, etc. If the overall export environment in terms of these policies is favorable then the exporter can certainly charge lower prices in the international market.

(e) **Incentives Offered by the Government**:

The Governments of developing countries, including India, offer various incentives to their exporters. Various incentives such as tax exemption, Customs and excise duty exemption, trade agreements, etc., may provide greater financial benefits to the exporters. Exporters may transfer the benefit of such incentives to Consumers by charging lower prices.

(f) **Frequency of Purchase:**

Products of daily requirements, which are bought very frequently such as Consumer non-durables and food articles, are generally priced low. On the other hand, consumers are willing to pay higher prices for durable goods such as electronic products and luxurious products, which are bought once in a while,

(g) **Product Differentiation and Brand Image:**

The products marketed by Multinationals (MNCs) and Transnationals (TNCs) are widely accepted in the world market due to their brand equity and reputation. Such companies can charge higher prices for their products. While exporters competing with such companies should charge lower prices.

(h) **Miscellaneous Factors:**

Besides these factors, other factors listed below affect the pricing decisions of exporters. Marketing policies, Inflation rate, Objectives of the firm, etc.

Importance of Export Pricing:

An exporter intends to achieve the following objective through his pricing strategy:

(a) **Helps to Achieve Objectives:**

Every organization has some fundamental objectives, such as sales maximization, profit maximization and so on Pricing helps organizations in achieving these objectives by suitably modifying their pricing strategy.

(b) **Increases Profitability:**

Pricing decisions directly affect the sales revenue and thereby overall profitability. For example, low pricing helps market penetration but reduces revenue. On the other hand, skimming pricing generates more revenue, if demand conditions are favorable.

(c) **Helps to Penetrate the Market:**

When there is an intense competition in the market, low pricing helps to penetrate market by driving away competitors. Low pricing attracts consumers and thereby helps in increasing market share for the product.

(d) **Helps to Skim the Cream:**

Where there exist a considerable consumer surplus, the same can be skimmed by introducing innovative features in the product or altogether new products in the market. Thus, a suitable price research can generate additional revenue for the exporter in the international market.

(e) **Helps to Increase Market Share:**

Exporters can increase market share for their product by charging competitive price in the international markets. Low price is one of the important considerations that affect the buying decisions of the consumers.

(f) **Helps to Develop Brand Loyalty:**

Goods, which are sold at right and reasonable price, help to develop brand loyalty in the long run. Consumers continue to buy such products even if new entrants, selling goods at lower price, enter the market.

(g) **Helps to Face Competition:**

Exporters face competition from three angles sellers from his own country, from other countries and domestic suppliers in importing country. Thus, exporters should fix up such a price, which should be reasonable and, as far as possible, final and non-negotiable.

(h) **Reflects the Quality of Product:**

Generally, consumers correlate quality of product with its price. Low priced products reflect low quality and vice versa. Hence, exporters should avoid charging a very low price. At the same time, very high prices are also to be avoided.

Export Pricing Strategies:

Pricing strategy may be defined as the strategy adopted by exporters with respect to the pricing of goods while marketing them to the ultimate consumer. An exporter may charge a uniform price in different markets of the world or he may practice price discrimination taking into consideration the situations prevailing in different markets. Various pricing strategies used in the international market are:

(a) **Skimming Pricing Strategy:**

A pricing strategy in which exporter charges a very high price initially in order to recover the cost incurred on high promotional expenditure, research and development, etc., is known as skimming pricing strategy. After exploiting the rich market, the exporter can gradually decrease the price in order to increase his market share.

(b) **Penetration Pricing Strategy:**

A pricing strategy in which an exporter I charges a very low price initially in order to get hold of the market and drive away competitors is known as penetration pricing strategy. Sometimes, such strategy is referred to as dumping. This strategy is suitable for the items of mass consumption.

(c) **Transfer Pricing:**

Transfer pricing refers to the pricing of goods transferred from one subsidiary to another or to the parent Company. Due to this, profits of one subsidiary are transferred to another subsidiary or to the parent company. Transfer pricing decisions are affected by factors such as differences in tax and tariff rates, foreign exchange restrictions and import restrictions.

d) **Marginal Cost Pricing:**

Marginal cost is the cost of producing one extra unit of a product. Under this approach, an exporter simply considers variable costs or direct costs while arriving at the price to be charged in the international market and fixed costs are fully recovered from the domestic market.

(e) **Market Oriented Pricing:**

This is a very flexible method of arriving at a price as it takes into consideration the changing market conditions. The price charged may be higher when demand conditions are favorable and vice versa. This method is sometimes referred to as what the traffic will bear method. This is a very flexible and realistic method of pricing.

(f) **Competitor's Pricing:**

Under this method, pricing strategy of dominant competitors is taken into consideration while arriving at the pricing decisions. A price leader is the firm, which initiates the price trends in the market. However, if the competitor's pricing policy is faulty, the followers will also land up with wrong pricing.